



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0034	Title:	Revise retirement statutes to address return to work issues and funding concerns
Primary Sponsor:	Wilmer, Franke	Status:	As Amended in House Committee

Retirement Systems Affected: ☒ Teachers ☐ Public Employees ☐ Highway Patrol ☐ Police
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
☒ Has the cost of this legislation been calculated by the system's actuary?
☒ Does this legislation include full funding for any benefit revisions?

	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$3,953,700,000	\$3,953,700,000	\$0
Present Value of Actuarial Assets	\$3,159,100,000	\$3,159,100,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$794,600,000	\$794,600,000	\$0
Amortization Period (years) of UAAL	31.30	30.60	0.07

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate	7.47%	7.47%	7.47%	7.47%	7.47%
State Contribution Rate	2.11%	2.49%	2.49%	2.49%	2.49%
Working Retiree Employer Rate	0%	0%	0%	0%	0%
TOTAL Contribution Rate	16.73%	17.11%	17.11%	17.11%	17.11%

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Trust	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Trust	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Description of fiscal impact: This proposal will help reduce future unfunded liabilities created when a retiree's benefits are terminated and then recalculated based on the higher salary and service earned following a period of reemployment as an active member of the TRS. It will also provide additional funding for the TRS starting July 1, 2013, to help offset the adverse affect of retirees returning to work in part-time non-contributing positions in place of active contributing members.

FISCAL ANALYSIS

Assumptions:

1. This proposal will only affect the calculation of retirement benefits of retirees who return to active status on or after July 1, 2009. As of December 12, 2008, there were only 64 former retired TRS members in active status that will retire in the future, receive a totally recalculated benefit, and not be affected by passage of HB 34.
2. When a retiree returns to active status, forfeits benefits, and then retires a second time, the resulting benefit increase is under funded. A study of 104 retirees who returned to work, forfeited benefits, and then retired a second time over the past 20 years found that the present value of the benefit increase they received was over \$7 million, of which only around \$2 million was funded with new employee and employer contributions.
3. Effective July 1, 2013, employers employing retirees in part-time non-contributing TRS positions, while the retiree continues to receive full benefits pursuant to 19-20-731, MCA, will contribute to TRS 9.85% of all wages paid to the "working retirees".
4. The additional contributions contributed on wages paid to "working retirees" starting July 1, 2013, will reduce the amortization period from 31.3 years to 30.6 years.
5. The actuarial cost estimates included in this fiscal note are based on the assets and member data used in the July 1, 2008, Actuarial Valuation. No gains or losses from asset or liability experience after that date are included.

Effect on Local Governments:

1. Effective July 1, 2013, school districts (and all other TRS employers) will contribute to the TRS 9.85% of all wages paid to retired TRS members working part time in a position that would be eligible to participate in TRS if not for the fact that a retired member had been hired to fill the position. The total cost to school districts will depend upon the number of retirees hired to fill part-time positions and the wages paid. Based on the past experience of the TRS through June 30, 2008, and assuming an average annual wage increase of 4.5%, school districts cost may approach \$500,000 - \$600,000 per year. However, if the school district choose to hire a non-retired person to fill positions, they would be required to contribute to the TRS anyway; therefore, this proposal may result in little or no additional cost to school districts.

Long-Term Impacts:

1. The University System and state agencies would be expected to contribute between \$250,000 and \$300,000 per year starting July 1, 2013. However, if employers choose to hire non-retired persons to fill TRS eligible positions, they would be required to contribute to the TRS anyway; therefore, this proposal may result in little or no additional cost TRS covered employers.

Sponsor's Initials

Date

Budget Director's Initials

Date